

# HOUSE BILL REPORT

## SSB 6636

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### As Passed House - Amended:

April 10, 2012

**Title:** An act relating to requiring a balanced state budget for the current and ensuing fiscal biennium.

**Brief Description:** Requiring a balanced state budget for the current and ensuing fiscal biennium.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Kastama, Zarelli and Tom).

### Brief History:

#### Committee Activity:

None.

#### First Special Session

#### Floor Activity:

Passed House - Amended: 4/10/12, 79-19.

### Brief Summary of Substitute Bill (As Amended by House)

- Requires the Legislature to enact a balanced budget in the current and ensuing fiscal biennia.
- Requires the Economic and Revenue Forecast Council to prepare a state budget outlook.

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## HOUSE COMMITTEE ON WAYS & MEANS

**Staff:** Kristen Fraser (786-7148).

### Background:

#### Balanced Budget.

Most states have some type of balanced budget requirement. These requirements may be constitutional or statutory or both, and they generally take one of three forms:

- requirement for the Governor to propose a balanced budget to the Legislature;

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- requirement for the Legislature to enact a balanced budget; or
- prohibition on carrying a deficit from one fiscal period to another.

Washington does not have an express constitutional balanced budget requirement. The Budget and Accounting Act contains two statutory requirements that address balancing the budget. First, the Governor must submit a budget proposal to the Legislature that reflects existing revenue laws and forecasts. (The Governor may also submit a "Book 2" proposal that relies on proposed changes to revenue laws.) Second, if the Governor projects a deficit in any account, he or she must make across-the-board reductions in allotments of appropriations from that account. This requirement does not apply if the Legislature has directed that the deficit be liquidated over more than one fiscal period.

#### State Forecasting.

Budget-related forecasts are made by two councils. First, the Economic and Revenue Forecast Council (ERFC) provides economic and revenue forecasts four times per year. Second, the Caseload Forecast Council (CFC) provides forecasts of caseloads in state programs such as public assistance and corrections at least three times per year. Each council consists of six members, four legislators, and two gubernatorial appointees. Both the ERFC and the CFC have workgroups comprising legislative and executive staff to provide technical support to the councils. In addition, the Office of Financial Management and the legislative fiscal committees may prepare informal budget projections on an *ad hoc* basis.

#### **Summary of Bill:**

##### Balanced Budget.

Beginning in the 2013-15 fiscal biennium, the Legislature must enact an operating budget that is balanced in the current and ensuing fiscal biennia. In the current biennium, the budget must leave a positive ending fund balance in the State General Fund and related funds. In the ensuing biennium, the projected maintenance level may not exceed the available fiscal resources for that biennium.

"Available fiscal resources" means beginning fund balances and estimated resources for the State General Fund and related funds, adjusted for enacted legislation, and with revenues adjusted to the greater of (1) the official forecast for the ensuing biennium, or (2) the official forecast for the second year of the current biennium increased for growth of 4.5 percent per year.

"Projected maintenance level" means the continuing costs of programs and services funded in the appropriations bills or mandated by other law, along with moneys transferred into the Budget Stabilization Account, and excluding, for the 2013-15 and 2015-17 biennia, the costs of enhanced basic education funding required under Engrossed Substitute House Bill 2261 (2009) and the *McCleary* ruling.

The balanced budget requirements do not apply to "early action" budget bills that make net reductions in general fund and related fund appropriations. The requirement for balance in the ensuing biennium does not apply in a year in which moneys are appropriated from the Budget Stabilization Account. "Related funds" are the Opportunity Pathways Account and the Education Legacy Trust Account.

### Budget Outlook.

A state budget outlook ("Outlook") process is established to facilitate compliance with the balanced budget requirements. Each November, the Economic and Revenue Forecast Council (ERFC) must oversee the preparation of a budget outlook for revenues and expenditures of the state general fund and related funds for the current biennium and the ensuing biennium. The Outlook must clearly state assumptions. Expenditure estimates must include maintenance level items and must exclude policy level items. The maintenance level estimates must also exclude the costs of court rulings issued fewer than ninety days before the beginning of the legislative session.

The ERFC must prepare an Outlook in January for the Governor's proposed budget, and it must update the Outlook for the enacted budget. The Outlook is prepared by a state budget Outlook Work Group (Work Group), consisting of staff members from the Office of Financial Management, the Legislative Evaluation and Accountability Program Committee, the Office of the State Treasurer, the Caseload Forecast Council, the ERFC, and the House and Senate Ways and Means Committees. The Work Group must publish and make recommendations on its Outlook methodology, due December 1, 2013, and every five years thereafter.

The State Treasurer is added to the ERFC. Approval of the Outlook and revenue forecast requires an affirmative vote from five of the seven ERFC members; if the ERFC cannot approve the Outlook, the ERFC forecast supervisor submits the Outlook without approval. A member who does not cast an affirmative vote for the Outlook may request preparation of an alternative Outlook based on different assumptions, including revenues to and expenditures from additional accounts.

### Revenue Forecasts.

The period of the revenue forecasts prepared by the ERFC for the State General Fund and related funds is extended. In odd-numbered years, the forecasts will cover the current biennium and the ensuing biennium; in even-numbered years, the forecasts will also cover the next following biennium. The ERFC must, in consultation with the Revenue and Forecast Work Group, make recommendations on improving revenue forecast methodology. Recommendations are due September 30, 2012, and every five years thereafter.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

### **Staff Summary of Public Testimony:**

(In support) None.

(Opposed) None.

**Persons Testifying:** None.

**Persons Signed In To Testify But Not Testifying:** None.